

National Dairy Products Corporation

NEW YORK

ANNUAL REPORT

1939

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Annual Report

1939

National Dairy Products Corporation

DIRECTORS

- F. J. ANDRE
President, The Telling-Belle Vernon Company, Cleveland
- F. J. BAHL
President, The Tri-State Butter Company, Cincinnati
- EDGAR N. BRAWNER
President, Chestnut Farms-Chevy Chase Dairy Company, Washington, D. C.
- HENRY W. BREYER, JR.
Director, Breyer Ice Cream Company, Philadelphia
- FREDERICK J. BRIDGES
President, Hydrox Corporation, Chicago
- E. J. FINNERAN
Director of Sales and Advertising
- J. HENRY GEISSLER
Vice-President, Breyer Ice Cream Company, Philadelphia
- JOSEPH GILFILLAN
Attorney, Philadelphia
- ROBERT S. GORDON
General Counsel
- B. S. HALSEY
Vice-President, Sheffield Farms Company, Inc., New York
- H. C. HORNEMAN
President, Sugar Creek Creamery Company, Danville
- VERNON F. HOVEY
President, General Ice Cream Corporation, Schenectady
- J. L. KRAFT
President, Kraft Cheese Company, Chicago
- JOHN H. KRAFT
Executive Vice-President, Kraft Cheese Company, Chicago
- B. M. LIDE, JR.
President, St. Louis Dairy Company, St. Louis
- E. J. MATHER
President, Southern Dairies, Inc., Washington, D. C.
- THOS. H. McINNERNEY
President
- P. P. MILLER
Vice-President, General Ice Cream Corporation, Schenectady
- EDWARD E. RIECK
Chairman of Board, Rieck-McJunkin Dairy Company, Pittsburgh
- WILBUR S. SCOTT
President, Breyer Ice Cream Company, Philadelphia
- A. A. STICKLER
Treasurer
- HORACE S. TUTHILL
Secretary, Sheffield Condensed Milk Company, Inc., New York
- L. A. VAN BOMEL
President, Sheffield Farms Company, Inc., New York
- SIDNEY J. WEINBERG
Banker, New York
- H. BURTON WILKERSON
President, Nashville Pure Milk Company, Nashville
- FRANK A. WILLS
Chairman of Board, Supplee-Wills-Jones Milk Company, Philadelphia
- HENRY N. WOOLMAN
Vice-President, Supplee-Wills-Jones Milk Company, Philadelphia

Each company named above is an operating company of
National Dairy Products Corporation

National Dairy Products Corporation

OFFICERS

THOS. H. McINNERNEY	<i>President</i>
L. A. VAN BOMEL	<i>Executive Vice-President</i>
FREDERICK J. BRIDGES	<i>Vice-President</i>
JAMES BRUCE	<i>Vice-President</i>
VERNON F. HOVEY	<i>Vice-President</i>
WILBUR S. SCOTT	<i>Vice-President</i>
A. A. STICKLER	<i>Treasurer</i>
A. BOAG, JR.	<i>Secretary and Comptroller</i>
GEORGE H. RUTHERFORD	<i>Assistant Treasurer</i>
J. F. TWOMEY	<i>Assistant Comptroller</i>
G. W. MCGHEE	<i>Assistant Secretary</i>
O. J. MARTIN	<i>Assistant Secretary</i>
E. J. FINNERAN	<i>Director of Sales and Advertising</i>
ROBERT S. GORDON	<i>General Counsel</i>

EXECUTIVE COMMITTEE

THOS. H. McINNERNEY

VERNON F. HOVEY

WILBUR S. SCOTT

J. L. KRAFT

L. A. VAN BOMEL

TRANSFER AGENT

BANKERS TRUST COMPANY
New York, N. Y.

REGISTRAR

THE CHASE NATIONAL BANK
OF THE CITY OF NEW YORK
New York, N. Y.

STOCK RECORD AND DIVIDEND DISBURSING DEPARTMENT

*75 East 45th Street
New York, N. Y.*

COUNSEL

SULLIVAN & CROMWELL

AUDITORS

PRICE, WATERHOUSE & CO.

EXECUTIVE OFFICES

75 East 45th Street, New York, N. Y.

National Dairy Products Corporation

NEW YORK, N. Y., March 11, 1940.

To the Stockholders:

We are pleased to submit herewith the Annual Report of your corporation for the year ending December 31, 1939.

Net profit for the year 1939 amounted to \$13,034,157 and was equivalent, after preferred dividend requirements, to \$1.97 per share on the common stock. This profit was after deducting \$373,610.52, or about 6 cents per share, representing an adjustment of the net current assets of consolidated foreign subsidiaries to exchange rates prevailing at December 31, 1939. In the preceding year \$1.69 per share was earned on the common stock after providing a foreign exchange adjustment of 2 cents per share.

Net profit for the year 1939 was equivalent to 3.8 cents per dollar of sales, compared with 3.4 cents in 1938. Sales totalled \$336,694,389 during 1939, compared with \$334,355,269 during 1938, even though selling prices generally averaged lower in 1939. The aggregate volume of all products sold reached a new peak for the fourth consecutive year. Your company's tonnage sales of cheese and butter during 1939 were larger than for any other year in the corporation's history. Dollar sales of miscellaneous products also exceeded those of any other year. These miscellaneous products include canned milks, casein, milk powders, malted milk, eggs, mayonnaise and salad dressings, quick frozen foods and many other products. Research activities are in a large measure responsible for the constantly increasing variety of products sold by your company.

Your company's fluid milk sales have been well maintained but in recent years have become of less relative importance to our total business because of large increases in our sales of other products. A similar shift has also taken place in the source of our total operating profit. In the corporation's early years, earnings from fluid milk amounted to well over half of operating profit; today they amount to less than one-quarter. This decline in the relative importance of our fluid milk operations has been due not only to the successful diversification of our operations in recent years but also to the increasing difficulty of earning a reasonable return on fluid milk distribution. In some markets governmental regulation has failed to properly appraise the costs of the distributor and the restricted purchasing power of the consumer. In such markets the government has established prices to be paid to farmers for milk sold to consumers in fluid form at levels so high as to unduly encourage production and discourage consumption. In addition, some markets have been troubled with a type of labor leadership that not only demands higher wages than the industry can afford to pay but also insists on practices which do

not permit a fair standard of operating efficiency. Under these conditions profitable operation is difficult to achieve. For example, Sheffield Farms in New York City, your company's largest fluid milk distributor, has had an actual operating loss each month since June, 1939. Despite these obstacles in New York City and in some of our other markets, our fluid milk operations on the whole showed a slight improvement in 1939 over 1938.

Taxes amounted to \$8,472,828 in 1939, compared with \$8,035,529 in the preceding year, and were equal to \$1.35 per share on the common stock, compared to \$1.28 in 1938. In view of the present trend in governmental expenditures of all kinds, we see no possibility of any reduction in this expense in the near future.

The operations of our foreign subsidiaries are not substantial in relation to your company's total business. Compared with the consolidated totals, the sales of the foreign subsidiaries included in the consolidated accounts represent 4¾%, their profits 4%, and their total assets 3¾%. On pages twelve and thirteen of this report we present pertinent data on our foreign subsidiaries. All of our foreign subsidiaries are consolidated in our accounts except our wholly-owned German subsidiaries and Kraft Walker Cheese Company of Australia, in which your corporation has a 60 percent interest. Our investment in the German and Australian subsidiaries is included under Investments and Advances in the balance sheet at a cost of \$389,029. None of the 1939 profits of the foreign subsidiaries were remitted in the form of dividends or otherwise during the year.

Your corporation's working capital increased about \$5,900,000 in the past year resulting in a current ratio of \$3.15 of current assets to each \$1.00 of current liabilities. During 1939 we paid all current notes payable to banks which amounted to \$4,464,125 at the end of 1938. We also paid \$1,400,000 of 2½% bank loans at maturity dates during the year. In addition we prepaid the remaining \$2,100,000 of 2½% bank loans which would have matured during 1940 and 1941. These payments totalled \$7,964,125 and, as a result, your company was free and clear of all bank debt at December 31, 1939.

As a result of consolidation of operations, plant improvements and changing business conditions during the last few years certain properties of your company are, or will soon become, no longer useful in the company's business or are carried at excessive values. The gross book value of such property, plant and equipment at December 31, 1939 totalled \$14,413,449; the reserves for depreciation against this property amounted to \$4,825,514 as of the same date. Your Board of Directors believed it advisable to write down the property no longer useful in the business to its estimated realizable value of \$3,810,117 by charging an amount of \$5,227,337.79 to the earned surplus account. It was also deemed advisable to reduce certain properties being carried at excessive values to their fair value by similarly charging the earned surplus account in the net amount of \$550,480.37. No further depreciation will be provided on that part of this property which is not being used but depreciation at the normal rates will be continued on the realizable values of that property which is under lease to others. This adjustment has not affected the charge for depreciation in the year 1939 but it will reduce depreciation charges

for the year 1940 in the estimated amount of \$1,100,000, and by decreasing amounts in subsequent years.

In our last year's report, we referred at some length to the indictment handed down in November 1938 by a Federal grand jury in Chicago against trade associations, corporations and individuals in the ice cream industry, including your company, relating to alleged trade restraints affecting ice cream counter freezers. We are pleased to report that the indictment was dismissed by the District Court for the Northern District of Illinois in November 1939.

The Sealtest experimental kitchen, formerly located in Radio City, has been moved to the corporation's offices in the New York Central Building, 75 East 45th Street, to permit more direct coordination of Sealtest promotional activities. This kitchen is providing a definite service to our present and potential customers.

The books of account and records of the corporation and its subsidiary companies were audited by Messrs. Price, Waterhouse & Co. and their certificate is appended to this report. This certificate sets forth in detail the type of examination Messrs. Price, Waterhouse & Co. made during the course of the annual audit.

It is with deep regret that your Board of Directors announces the death of Lester Claster. Mr. Claster served your company faithfully and well as a Director of the corporation and as President of Food Sales Company, Inc., New York, N. Y.

The Board of Directors expresses its appreciation to the employees and officers of our subsidiary companies for their able and loyal efforts which contributed so substantially to the improvement in the corporation's operations during the past year.

By Order of the Board of Directors.

THOS. H. MCINNERNEY,
President.

*To the Board of Directors of
National Dairy Products Corporation:*

We have made an examination of the consolidated balance sheet of National Dairy Products Corporation and its subsidiary companies as at December 31, 1939 and of the consolidated statements of profit and loss and surplus for the year 1939. In connection therewith, we examined or tested accounting and other records of the companies (except the German subsidiaries which were not consolidated) and reviewed the system of accounting control and procedures, by methods and to the extent we deemed appropriate, but we did not make a detailed audit of the transactions.

The examination consisted principally of the following procedures:

Cash balances were confirmed by statements obtained from depositaries and by count. Notes receivable, investment securities, and collateral held against certain loans were inspected, or confirmed by correspondence with custodians or by tracing collections to the records.

Customers' ledgers were reviewed and totals thereof were reconciled with controlling accounts, except for ledgers located at relatively small branches. In the latter instances, we satisfied ourselves as to the propriety of the accounts through interrogation of responsible employees or by a review of work performed by internal auditors. In the case of milk companies, a representative proportion of drivers' route books was inspected and statistics were reviewed to ascertain that the balances bore a normal relation to the volume of business. The companies have such a large number of customers whose accounts are relatively so small that confirmation by direct correspondence of a substantial proportion of the accounts receivable is not practicable; therefore, the major part of our circularizing was concentrated in the wholesale accounts. It was found that reasonable reserves had been provided for doubtful accounts.

Inventories were certified by the management as to quantities and condition. We attended during the year at the taking of physical inventories by the companies' employees at a number of points where major quantities were concentrated. By observation of the companies' methods and by count of representative items selected for purposes of tests, supplemented by a review of the records, we satisfied ourselves that quantities reported were on hand. The companies' merchandise in public warehouses was confirmed to us by the warehouses. We checked the clerical accuracy of a large proportion of the inventories and made selective tests of unit prices by reference to invoices, trade journals, cost records, and, in some cases, prices established by governmental agencies.

For the major additions to capital assets, we inspected authorizations, contracts, invoices, and other vouchers. We reviewed the calculations of depreciation and believe that the amount of depreciation charged to profit and loss is reasonable.

In substantiation of the liability accounts, we referred to voucher registers, tax returns, payrolls, estimates of accrued items and other data. Responsible officers of the companies stated to us that to the best of their knowledge and belief no material liabilities were omitted. Amounts of outstanding debentures and capital stock of National Dairy Products Corporation were confirmed by correspondence with the trustees and the registrar, respectively. Based upon the records examined and the information received, it is our opinion that all known liabilities, with relatively inconsequential exceptions such as are usually encountered, were included in the balance sheet.

The accounting records at the main offices of each of the companies and the more important branches were examined; it was not, however, considered practicable for us to review underlying accounting records maintained at the smaller branches. Our examination included inspection of accounting records at approximately one hundred and fifty locations, and for branches not visited we reviewed accounting reports on file at main offices.

In our opinion, the accompanying balance sheet and related statements of profit and loss and surplus set forth fairly the consolidated position of National Dairy Products Corporation and its subsidiary companies at December 31, 1939 and the results of its operations for the year, in accordance with generally accepted principles of accounting maintained on a basis consistent with preceding years.

PRICE, WATERHOUSE & Co.

56 Pine Street,
New York, N. Y.
March 11, 1940.

National Dairy Pro

AND SUBSIDIAR

(Consolidating as heretofore all sub
equity stock is owned, except

CONSOLIDATED BALANCE SHEETS

ASSETS

	DECEMBER 31,	
	1939	1938
Current and Working Assets:		
Cash in banks and on hand	\$ 16,673,954.38	\$ 16,840,571.00
Marketable securities at cost, less reserve for market depreciation.....	53,460.00	66,829.19
Notes receivable	\$ 526,141.36	\$ 556,458.05
Accounts receivable	19,228,049.22	18,415,327.92
Total notes and accounts receivable.....	\$ 19,754,190.58	\$ 18,971,785.97
Less: Reserve for doubtful notes and accounts.....	1,951,033.20	1,921,054.05
	\$ 17,803,157.38	\$ 17,050,731.92
Inventories at cost or market, whichever is lower.....	\$ 27,369,420.30	\$ 27,564,368.05
Miscellaneous supplies	4,743,371.37	2,953,336.51
Cash surrender value of life insurance	363,778.64	347,717.32
	\$ 67,007,142.07	\$ 64,823,553.99
Investments and Advances:		
Investments in and advances to foreign subsidiaries not consolidated.....	\$ 389,029.08	\$ 494,375.30
Investments in and advances to domestic subsidiaries not consolidated.....	190,272.42	176,902.12
Securities on deposit with State insurance departments.....	508,945.27	508,945.27
Cabinet fountain and equipment contracts, less reserve.....	948,969.42	779,502.29
Miscellaneous investments	1,230,713.50	1,712,431.95
Other notes and accounts receivable, less reserve.....	1,943,978.71	1,736,072.01
Funds in closed banks, less reserve.....	75,455.61	114,990.54
Loans to employees, less reserve of \$200,000 at December 31, 1939 and \$500,000 at December 31, 1938.....	492,162.40	230,794.32
	\$ 5,779,526.41	\$ 5,754,013.80
Cash on Deposit in Purchase Fund for retirement of 3¾% Debentures due 1951	\$ 56.63	\$ 194.83
Capital Assets:		
On basis of cost, or sound values as appraised with additions at cost, less adjustments written off:		
Land	\$ 15,804,754.36	\$ 18,158,008.03
Buildings, machinery and equipment	135,512,766.99	145,043,774.71
	\$151,317,521.35	\$163,201,782.74
Less: Reserves for depreciation on buildings, machinery and equipment	53,636,982.88	57,524,455.13
	\$ 97,680,538.47	\$105,677,327.61
Prepaid taxes, insurance, interest, etc.	\$ 806,971.11	\$ 877,915.97
Goodwill.....	\$ 22,391,853.64	\$ 22,391,853.64
	\$193,666,088.33	\$199,524,859.84

(See comments concerning foreign subsi

ducts Corporation

Y COMPANIES

subsidiaries 90% or more of whose
the German subsidiaries)

DECEMBER 31, 1939 AND DECEMBER 31, 1938

LIABILITIES

	DECEMBER 31,	
	1939	1938
Current Liabilities:		
2½% bank loans maturing February 1 and August 1 of following year....	None	\$ 1,400,000.00
Other notes payable to banks.....	None	4,464,125.00
Accounts payable including sundry accruals.....	\$ 17,944,587.45	15,990,614.99
Reserves for Federal taxes.....	3,299,036.74	3,094,404.29
	<u>\$ 21,243,624.19</u>	<u>\$ 24,949,144.28</u>
2½% Bank Loans maturing semi-annually February 1 and August 1 of second succeeding year to February 1, 1941.....	None	\$ 2,100,000.00
3¾% Debentures due 1951 with common stock purchase warrants attached expiring May 1, 1940, of which warrants pertaining to \$71,500 of debentures have been exercised: (Annual purchase fund requirement \$1,876,365 principal amount)		
Issued	\$ 62,545,500.00	\$ 62,545,500.00
Less: Retired	5,646,500.00	3,770,000.00
	<u>\$ 56,899,000.00</u>	<u>\$ 58,775,500.00</u>
Minority Stockholders' Interest in subsidiary companies	\$ 893,410.99	\$ 914,449.54
(Including preferred stock of Fairfield Western Maryland Dairy Corporation, preferred over common on liquidation up to \$2,012,500, carried on books at \$546,694.84)		
Reserves for Contingencies:		
Insurance	\$ 1,399,813.46	\$ 1,343,802.39
General	1,674,184.28	1,418,430.73
	<u>\$ 3,073,997.74</u>	<u>\$ 2,762,233.12</u>
Capital Stock and Capital Surplus:		
Preferred stock Class A 7% cumulative:		
Authorized—69,244 shares of \$100 par value		
Issued less retired—57,339 shares.....	\$ 5,733,900.00	\$ 5,733,900.00
Preferred stock Class B 7% cumulative:		
Authorized—50,000 shares of \$100 par value		
Issued less retired—41,370 shares.....	4,137,000.00	4,137,000.00
Common stock:		
Authorized—8,000,000 shares without par value		
Reserved for issue upon exercise of stock purchase warrants attached to debentures—613,570 shares		
Issued—6,263,880 shares at stated value.....	\$ 51,337,430.00	\$ 51,337,430.00
Less: 8,633 shares in treasury at average stated value.....	70,754.23	70,754.23
	<u>\$ 51,266,675.77</u>	<u>\$ 51,266,675.77</u>
Capital surplus	3,849,086.11	4,168,659.55
	<u>\$ 55,115,761.88</u>	<u>\$ 55,435,335.32</u>
	<u>\$ 64,986,661.88</u>	<u>\$ 65,306,235.32</u>
Earned surplus, per statement attached.....	\$ 46,569,393.53	\$ 44,717,297.58
	<u>\$193,666,088.33</u>	<u>\$199,524,859.84</u>

diaries on pages twelve and thirteen)

National Dairy Products Corporation

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF PROFIT AND LOSS

For the Years Ending December 31, 1939 and December 31, 1938

	YEAR 1939	YEAR 1938
Net sales (excluding inter-company sales).....	\$336,694,389.05	\$334,355,269.51
<i>Deduct:</i>		
Cost of products.....	\$225,837,853.79	\$228,585,145.39
Delivery expense	52,857,360.22	52,820,112.54
Selling expense	26,158,745.55	24,191,237.18
Administrative and general expenses.....	13,619,918.93	12,858,119.68
	<u>\$318,473,878.49</u>	<u>\$318,454,614.79</u>
	\$ 18,220,510.56	\$ 15,900,654.72
<i>Other income:</i>		
Dividends received	\$ 53,655.21	\$ 35,770.68
Interest received	236,783.38	232,504.17
Purchase discounts	547,672.84	498,771.47
Miscellaneous other income.....	187,619.35	387,638.59
	<u>\$ 1,025,730.78</u>	<u>\$ 1,154,684.91</u>
	\$ 19,246,241.34	\$ 17,055,339.63
<i>Income deductions:</i>		
Interest on funded debt.....	\$ 2,238,942.99	\$ 2,335,198.77
Other interest	90,477.42	176,240.40
Net loss on disposition of capital assets.....	165,757.97	126,724.05
Miscellaneous charges	298,231.36	229,566.31
Realized exchange <i>profit</i> or loss arising from foreign operations.....	117,410.62	9,412.27
	<u>\$ 2,910,820.36</u>	<u>\$ 2,858,317.26</u>
	\$ 16,335,420.98	\$ 14,197,022.37
Provision for Federal income taxes.....	2,793,000.00	2,602,000.00
	<u>\$ 13,542,420.98</u>	<u>\$ 11,595,022.37</u>
Provision for adjustment of net current assets of foreign subsidiaries included in consolidation to commercial exchange rates prevailing at December 31, 1939	373,610.52	127,498.53
Profit before dividends on preferred stock of subsidiary company held by public and minority interest in earnings.....	\$ 13,168,810.46	\$ 11,467,523.84
<i>Deduct:</i>		
Dividends on preferred stock of subsidiary company held by public.....	\$ 120,750.00	\$ 120,750.00
Minority interest in earnings.....	13,903.25	20,413.67
	<u>\$ 134,653.25</u>	<u>\$ 141,163.67</u>
Net profit carried to earned surplus.....	<u>\$ 13,034,157.21</u>	<u>\$ 11,326,360.17</u>

Note A: Depreciation included in the above accounts for the year 1939 aggregated \$10,217,003.00 and for the year 1938 aggregated \$10,557,280.68.

Repairs and maintenance (including replacements of milk bottles) amounted to \$10,020,001.51 for the year 1939 and \$9,732,303.30 for the year 1938.

Note B: The net profit carried to earned surplus, after deducting dividends of \$690,963.00 on the parent company's preferred stocks, was equivalent to \$1.97 per share for the year 1939 and \$1.69 per share for the year 1938, on the shares of common stock outstanding at the end of each year.

Note C: The corporation's equity in the 1939 profits of domestic subsidiaries not consolidated was \$10,693.92 greater than the dividends of \$12,525.00 received from such companies.

(See additional comments concerning foreign subsidiaries on pages twelve and thirteen)

National Dairy Products Corporation

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF EARNED SURPLUS

For the Years Ending December 31, 1939 and December 31, 1938

	YEAR 1939	YEAR 1938
Earned surplus at beginning of year, per published reports.....	\$44,717,297.58	\$40,335,048.66
<i>Add:</i>		
Net profit, per statement attached.....	13,034,157.21	11,326,360.17
Restoration to earned surplus of portion of reserve for loans to employees	300,000.00	
	<u>\$58,051,454.79</u>	<u>\$51,661,408.83</u>
<i>Deduct:</i>		
Premium—Discount on retirement of Debentures through operation of purchase fund	\$ 9,082.50	\$ 2,098.75
Reduction to estimated realizable value of certain property and equipment no longer useful in the business	5,227,337.79	
Reduction to fair value of certain property and equipment carried at excessive values	550,480.37	
<i>Dividends:</i>		
Paid on preferred stocks at \$7.00 per share.....	690,963.00	690,963.00
Paid on common stock:		
Apr. 1—20 cents per share (1938—30 cents per share).....	\$ 1,251,049.40	\$ 1,876,574.10
July 1—20 cents per share (1938—30 cents per share).....	1,251,049.40	1,876,574.10
Oct. 2—20 cents per share	1,251,049.40	1,251,049.40
Dec. 15—20 cents per share	1,251,049.40	1,251,049.40
	<u>\$ 5,004,197.60</u>	<u>\$ 6,255,247.00</u>
	<u>\$11,482,061.26</u>	<u>\$ 6,944,111.25</u>
Earned surplus at end of year, per balance sheets.....	<u>\$46,569,393.53</u>	<u>\$44,717,297.58</u>

CONSOLIDATED STATEMENTS OF CAPITAL SURPLUS

For the Years Ending December 31, 1939 and December 31, 1938

	YEAR 1939	YEAR 1938
Capital surplus at beginning of year, per published reports.....	\$4,297,721.02	\$4,308,304.59
<i>Less:</i> Reduction of common shares held in treasury (formerly carried under Investment and Advances) from cost to average stated value (given effect to on the attached balance sheets as at December 31, 1938 for comparative purposes)	129,061.47	
Capital surplus at beginning of year as adjusted for comparative purposes.....	\$4,168,659.55	
<i>Deduct:</i> Goodwill purchased during year, written off.....	319,573.44	10,583.57
Capital surplus at end of year.....	<u>\$3,849,086.11</u>	<u>\$4,297,721.02</u>

FOREIGN SUBSIDIARIES

INCLUDED IN THE CONSOLIDATED ACCOUNTS

(Foreign exchange in the countries indicated is subject to
certain governmental restrictions)

The profit and loss statements of the foreign subsidiaries included in the consolidation have been converted on the basis of the commercial exchange rates prevailing at December 31, 1939, or the approximate commercial rates of exchange prevailing at the time of the corporation's investment in such subsidiaries, whichever was lower. In addition profits have been reduced by \$373,610.52, the additional amount required in 1939 to adjust the net current assets of the consolidated foreign subsidiaries to the basis of commercial rates prevailing at December 31, 1939 or the approximate commercial rates prevailing at the time of the corporation's investment, whichever was lower.

In the table below, net sales and net profit or loss, excluding inter-company transactions, have been stated on the foregoing basis and further the adjustment of \$373,610.52 has been applied to the net profits of the several foreign subsidiaries:

	Net Sales	Net Profit-Loss
Canada	\$ 6,516,569.81	\$181,074.43
England	8,988,210.64	357,304.97
Netherlands	344,829.71	13,710.85
Belgium	45,999.53	1,200.20
Argentina	142,171.75	15,886.06
Totals	<u>\$16,037,781.44</u>	<u>\$539,354.41</u>

The net worth of these foreign subsidiaries compared with the corporation's investment in and advances to such companies at December 31, 1939 is as follows:

	Net Current Assets ¹	All Other Assets—Net ²	Net Worth	Investment and Advances
Canada	\$1,721,666.37	\$ 507,752.34	\$2,229,418.71	\$2,221,775.49
England	1,915,151.90	1,598,255.45	3,513,407.35	3,376,172.17
Netherlands	93,412.53	82,996.18	176,408.71	202,774.42
Belgium	5,304.21	18.15	5,322.36	19,804.89
Argentina	74,546.71	156,546.39	231,093.10	256,432.31
Totals	<u>\$3,810,081.72</u>	<u>\$2,345,568.51</u>	<u>\$6,155,650.23</u>	<u>\$6,076,959.28</u>

¹ Net current assets are valued at the commercial exchange rates prevailing at December 31, 1939, or at approximately the commercial rates of exchange prevailing at the time of the corporation's investment in such subsidiaries, whichever was lower.

² The net amounts of all other assets are valued at approximately the commercial rates of exchange at the time of the corporation's investment in such subsidiaries.

FOREIGN SUBSIDIARIES

NOT INCLUDED IN THE CONSOLIDATED ACCOUNTS

(Foreign exchange in the countries indicated is subject to certain governmental restrictions)

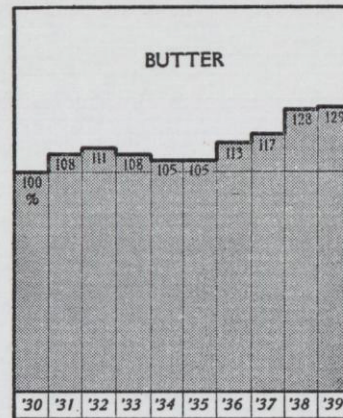
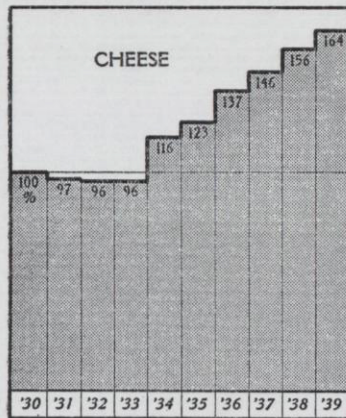
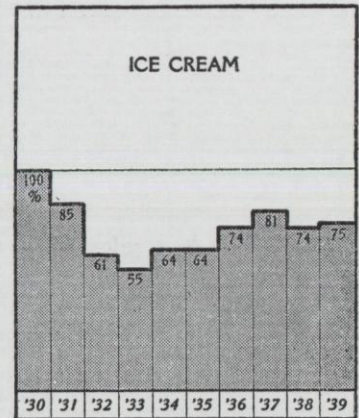
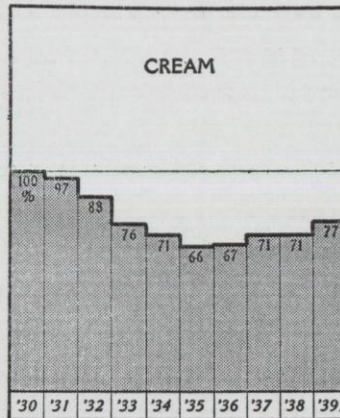
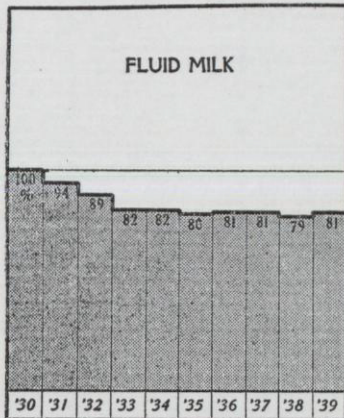
Australia—The Australian subsidiary is not included in our consolidated accounts since less than 90% of the equity stock of the company is owned. Net sales and net profits of this company for the year 1939 converted at the commercial rate of exchange of \$3.15 prevailing at December 31, 1939 were \$2,974,714.61 and \$231,756.90 respectively. After deducting the additional amount required in 1939 to adjust the net current assets to the basis of the commercial rate of exchange of \$3.15 prevailing at December 31, 1939 and after provision for the minority interest, the corporation's equity in the profits amounted to \$90,015.94, none of which has been reflected in the 1939 consolidated statement of profit and loss attached.

The net current assets of the Australian subsidiary at December 31, 1939 converted at the commercial rate of exchange of \$3.15 prevailing on that date were \$442,726.12; all other assets-net, converted at \$3.89, amounted to \$294,971.94; or a net worth of \$737,698.06. These figures are after provision for the minority interest of 40% in such company. The corporation's investment in and advances to such company at December 31, 1939 amounted to \$186,870.98.

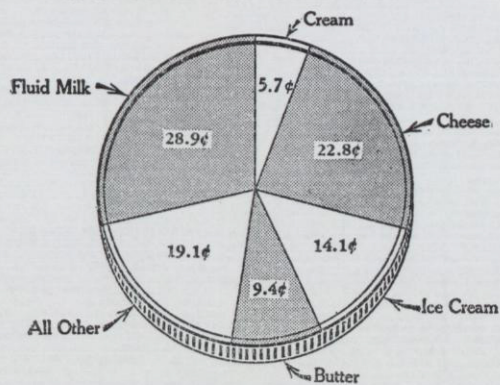
Germany—The German subsidiaries, each of which is wholly-owned, are not included in the consolidated accounts because of foreign exchange restrictions which result in no commercial exchange rates being obtainable. The net sales and net profits of these subsidiaries for the year 1939 expressed in reichsmarks were RM 8,953,519.06 and RM 296,680.98, respectively.

The net current assets, all other assets-net, and net worth of the German subsidiaries at December 31, 1939, expressed in reichsmarks, were RM 1,067,468.48, RM 393,083.57, and RM 1,460,552.05, respectively. The corporation's investment in and advances to such subsidiaries on the same date amounted to \$202,158.10.

SALES VOLUME (TONNAGE) -- 1930 = 100%

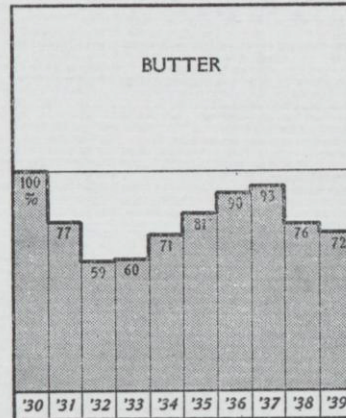
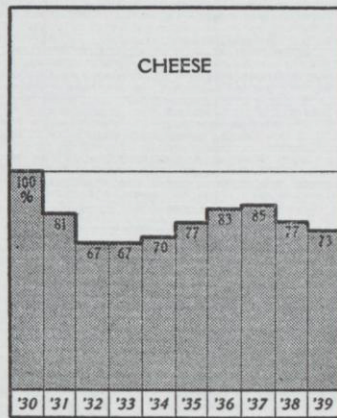
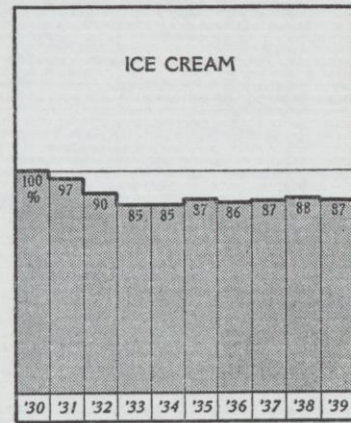
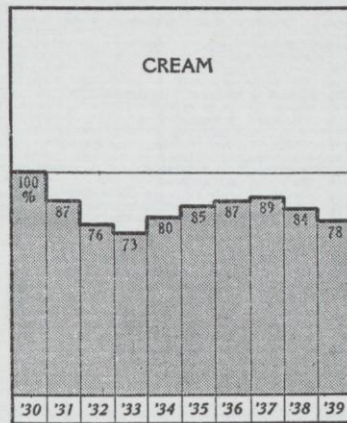
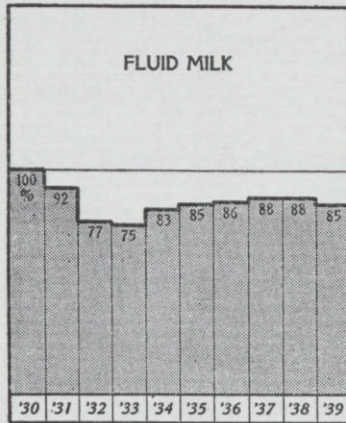


SOURCE OF 1939 SALES DOLLAR



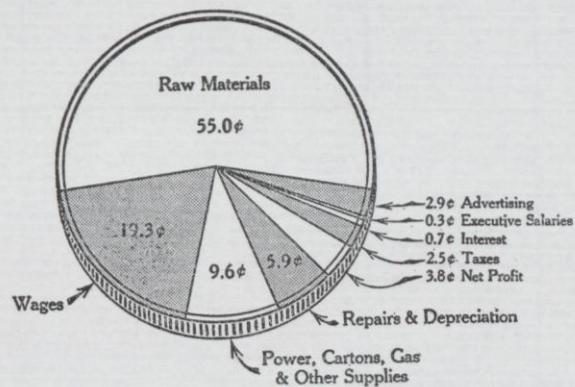
The trends since 1930 in volume sales and average unit selling prices of our major products are shown in the charts above. At the left is set forth the relative portion of total sales of \$336,694,389 contributed by each of these

UNIT SELLING PRICES -- 1930 = 100%

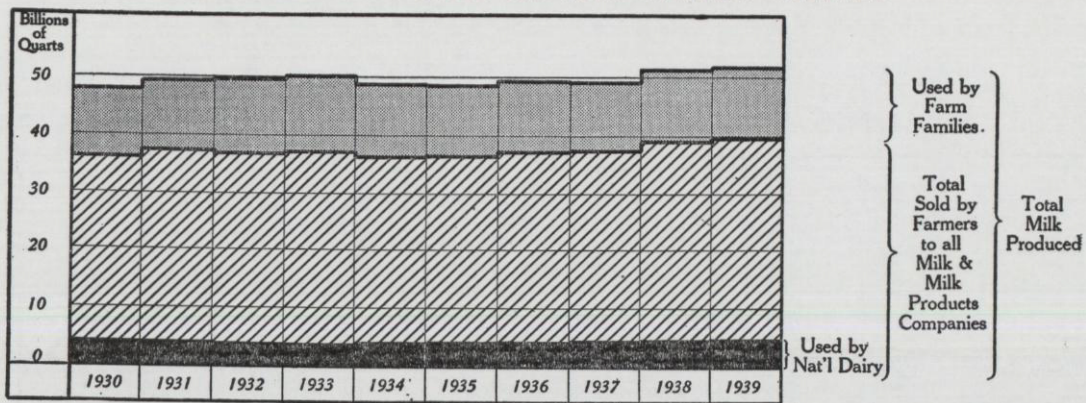


DISTRIBUTION OF 1939 SALES DOLLAR

products. The chart at the right shows a breakdown of expenses incurred in obtaining these \$336,694,389 of sales. It will be noted that material costs (mostly payments to farmers for milk) and wages account for 74.3% of total operating expenses.



MILK PRODUCTION IN THE UNITED STATES



The total amount of fluid milk (3.5% butterfat) represented by National Dairy's sales of fluid milk, butter, cheese, ice cream and other dairy products has averaged about 11% of the Nation's commercial milk supply. The corporation's total annual usage in quarts on this basis has been as follows from 1930 through 1939: 4,110,000,000; 4,016,000,000; 3,857,000,000; 3,670,000,000; 3,850,000,000; 3,937,000,000; 4,189,000,000; 4,351,000,000; 4,511,000,000; 4,681,000,000. Eliminating substantial purchases of butter and cheese from cooperatively or privately owned creameries and cheese plants, National Dairy actually buys direct from farmers less than five percent of all milk they sell commercially.

Sources: U. S. Department of Agriculture (1939 data preliminary) and National Dairy Products Corporation.

NUMBER OF EMPLOYEES -- ANNUAL AVERAGE

1939	36,543
1938	35,911
1937	37,227
1936	36,256
1935	35,146
1934	34,776
1933	31,775
1932	32,767
1931	34,835
1930	36,565

NUMBER OF COMMON STOCKHOLDERS AS OF DECEMBER 31

1939	70,078
1938	73,723
1937	73,187
1936	69,963
1935	72,028
1934	71,606
1933	68,890
1932	65,705
1931	58,159
1930	41,312

